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THE STATE MARKET COMMISSION OF CALIFORNIA

Its Beginnings, 1915-1917

I

In the latter part of 1915 the State Market Director of California entered upon his activities, aiming to lessen the cost of marketing and to control the prices of certain food commodities. While the beginnings of this experiment are remarkable, they have been attained under unusually favoring conditions. It is as yet impossible to say how permanent the results are likely to be.

Existing Market Conditions

It will be necessary, in order to make the situation clear, to explain in some detail the existing marketing conditions. Although this may seem a diversion, it is of itself worth while, for there are features that illustrate in a striking way certain fundamental economic principles and that stand out clear of the complications under which they are usually found elsewhere.

Thus far the market director's activities have been confined to food products. With the exception of olives, he does not deal with canned food products, such as canned fruits, vegetables, and fish; he does not deal with cereals, unless rice may be considered a cereal, and that has come under his purview mainly because it is a new culture and lacks facilities for milling and grading; nor does he include the wine industry; and he is but just beginning to take up the great bean crop and beet sugar.

Among the food products with which the director is concerned there are several groups. The first is composed of the citrus fruits, the fresh and dried deciduous fruit and grapes, vegetables, also raisins. For this group his activities have been mainly to promote coöperative associations among the growers in order to better the conditions of marketing these products outside of the state. Another group is composed of dairy products, eggs and poultry, and concerns primarily the local markets. Here too coöperation is the method adopted. The third is hardly a group, for it concerns only fresh fish for the local markets. But in this case the director fixes the "legal" prices, maximum prices, for the fisherman, wholesaler, and retailer.

The Problem

If, out of every dollar that the consumer pays for California dried peaches, the grower receives only 15 cents, the other 85 cents going to the packer, the commission merchant, the wholesaler, the retailer, and the railroads, is or is not the question of the possibility of reducing that 85 cents and increasing the 15 cents a public question in the sense that it justifies government intervention? When this division of the consumer's dollar gives the grower only 2½ cents a pound for his fruit and his expenses run from 4 to 6 cents a pound for orchard care alone, the grower is moved to demand help wherever he can find it, and will naturally answer the question in the affirmative. This illustration, which is only one of many, will serve to suggest the origin of the "State Market Commission" of California.

The problem of reducing the high cost of marketing California's far-famed fruits has received earnest study for many years. Of the history of the marketing of fruits Dr. Lloyd says:

> In the early 80's, while the supply of California fruit was yet small, it was usually purchased outright from the grower by speculative buyers who shipped it to a few of the larger markets. California fruit in the eastern markets was then looked upon as a luxury to be indulged in only by the wealthy, and the limited shipments were sold at exorbitant prices. During this period the buyers paid good prices to the growers, and at the same time made large profits for themselves. Within a few years, however, with increased production, the markets seemed to be easily oversupplied, and the former buyers refused to purchase fruit from the growers, but were willling to handle it upon a commission basis, in addition to a fixed charge for packing. This arrangement relieved the shipper of all risk and insured him a profit, but placed the growers at the mercy of an uncertain market, and finally resulted in such low returns that the entire fruit industry of the state was threatened with ruin. The crisis was reached during the financial panic of 1893. For a few years previous to that date, various efforts had been made by the growers to devise some better method of marketing their products; and in a few places small local associations had been organized. The movement favoring the formation of fruit growers' coöperative marketing organizations became quite general in 1893 and was especially pronounced among orange growers in the southern part of the State. The various local organizations of orange growers became affiliated, and in 1895 a central organization, known as the Southern California Fruit Exchange, was incorporated. This organization has been in continuous activity since that date (though in 1905 the name was changed to California Fruit Growers' Exchange), and furnishes the facilities by means of which a large part of California's citrus fruit crop is marketed.[1]

1 *Coöperation and Other Organized Methods of Marketing California's Horti-*

Until 1915 government aid to agriculture in California was confined primarily to furthering the solution of the mechanical, physical, and other problems of production; to education and to the dissemination of information; or to research relative to soils, seed varieties, and the like. The only aid to marketing, to the commercial side of agriculture, was the establishment of state and district fairs. Efforts to solve the marketing problems were made solely by private initiative. But in 1915, the state government took a hand. The state's experiment is, of course, very young; and, as the rate of infantile mortality among the private experiments looking to the same end has been very high, there is as yet no assurance of long life for this infant.

Stated briefly, the *aim* of the state's experiment is to gain the advantages and economies of combination, while avoiding the dangers of monopoly. The *method*, except for group three, fish, is the establishment of coöperative marketing combinations under government patronage, but without enforced control. The government acts as mentor. The commissioner is presumed to represent the "public at large." Admittedly he represents the California public which is composed largely of growers. If there be any "harmony of interest" between the growers and the consumers he should represent that point of view. He has no power to enforce his advice, save as the withdrawal of his countenance may serve as a penalty. But at the same time, as his countenance leads to inspection and grading and to the endorsement of brands or trade names, it has a solid commercial value and is not likely to be lightly ignored.

The High Cost of Marketing[2]

The reasons for the high cost of marketing California's horticultural products must be briefly explained before the efforts of the market director can be understood. There are three main groups

cultural Products, by Dr. J. W. Lloyd. (A thesis, as yet unpublished, presented by Dr. Lloyd in part fulfilment of the requirement for the degree of Ph.D. at the University of California.)

Many of the facts used in this article are taken, in part from memory, from various reports and theses presented by the author's pupils during the last twenty years. Since this article is not primarily an historical study, detailed scholastic references seem unnecessary.

2 Many details may be omitted in view of the excellent discussions already in print. See Huebner, *Agricultural Commerce,* p. 250 ff. One correction

of causes all closely interwoven. Some lie in the nature of the products, others arise from the geographical isolation of the state, and still others are to be found in the peculiarities of the demand in the distant markets.

The products primarily involved, with roughly approximate amounts shipped from the state annually, are:

Citrus fruits	50,000	carloads
Fresh deciduous fruits: apples, apricots, cherries, peaches, pears, plums, grapes	18,000	"
Fresh vegetables: very many sorts (the amount shipped is far less than the whole crop)	250,000	tons
Dried fruits and raisins	250,000	"
Canned fruits (indirectly involved)	5,000,000	cases
Canned vegetables (indirectly involved)	3,000,000	"
Nuts	15,000	tons
Olives	1,800,000	gallons
Olive oil	1,000,000	"

These horticultural and vegetable products have many characteristics of an economic kind in common. But the characteristics differ in importance in each case.

1. They are grown both by large and by small growers. But the small growers are more numerous and, generally speaking, the number and size of large "ranches" is slowly decreasing.

2. Up to the point of the ripening of the fruit the industry obeys the law of diminishing returns. That is to say, the small ranch (40 to 100 acres) intensively cultivated by, or under the eye of, the owner produces generally more cheaply per unit of product than a large one. Or, at least, the costs reckoned against the crop, including the owner's work, are not rated so high as on the large ranch.

3. After the fruit is ripe, the processes of picking and "packing" (a term used loosely to cover curing, boxing, canning, in short, every step from tree to car) and all the processes of shipping and selling involve in a marked degree the law of increasing returns. That is to say they can all be done more cheaply per unit on a large scale. This may not be universally true of picking. The small grower who picks his own fruit, or uses

should be made to his statement, and that is that when the orchard fruit is sold as a whole, the California practice is to sell at so much a ton, or other measure. Buyers here do not ordinarily "pay a lump sum for the crop." See also the other references given by Huebner, and Dr. Lloyd's thesis, above referred to, which will be published soon.

little hired labor, relying on his family, may reckon a smaller money cost. But that largely depends on how he rates his own labor. Still, care and painstaking at this point count. When labor is scarce the large ranch is at a disadvantage, as was strikingly shown in the season of 1917 when much fruit rotted on the ground for lack of labor to harvest it. In this year of high prices and scanty food supply it was a great calamity. Obviously, combination in all these processes tends to result in real saving.

4. In varying degrees the products are perishable, some highly so. The fresh fruits go to market in refrigerator cars, are precooled and must be iced en route. They must travel fast. They must be sold soon after their arrival. All this not only involves costly physical appliances, but the even more important necessity for avoiding gluts in any of the markets.

From these four causes the growers, and especially the small growers, who form the larger group, are at a disadvantage. Some way of assembling the crops in large shipments is a necessity for economy. For this, as well as other reasons, "packers,"—including not only those doing the things above mentioned but, still more loosely, commission houses, jobbers, and middlemen generally—have performed an essential service. The term "packer" will from here on, in conformity with local usage, be used to designate all those commercial agencies for packing and marketing fruit not run by the growers themselves. As against the "packers" stand the growers' associations, mostly coöperative. There are a few large growers who market their crops directly.

The unavoidable expenses of "packing" are large. For some crops packing involves a plant of considerable size and calls for an investment of capital that the small grower can ill afford. A packing house large enough to do the work at all can usually do a relatively large amount more than a small grower offers. The larger the packing house the greater the advantage. A large packing house can, just by being large, secure a larger and steadier supply of labor. Its brands, trade-names, cans, and other devices for securing reputation and good-will become more widely known. Some capital is also needed to finance the selling, and a large house can hire full-time salesmen.

It is claimed that California ships nearly one fourth of all the fruit that enters into the general markets of the United States. The exact proportions are not very important for our present purpose. But as California has only about 3 per cent of the

population of the United States and as a large part of that 3 per cent supplies itself with fruit without entering the general market, it is obvious that the fruit must practically all be sold outside the state. Now, in this case, outside the state means at great distances. The nearest market centers of any size are on the Denver meridian, 1,000 miles away; the next line of them is on the Chicago meridian, some 2,000 miles away. Then comes the Atlantic coast, with the most important markets, some 3,000 miles away. There are foreign markets still more distant.

From this simple fact arises many a difficulty. The small grower can rarely, and then only at almost prohibitive cost, come into personal contact with the distant dealers. Even a large packer is at the mercy of outsiders for information. This is often fatal, as a single carload missent may cause a glut and heavy loss. Although the transportation difficulties have been fairly solved, there still remains unavoidably the differential in freight rates between carload and less than carload lots which establishes an ever increasing advantage for the large shipper.

California fruits have, of course, certain unique advantages in the eastern markets. If it were not so they would not be there. Many come in at the off seasons for the eastern fruits; early cherries, for example. Some are grown only in California; ripe olives, for example. Some have a large demand for festal occasions when expense is not counted closely; for example, oranges, raisins, and nuts at Thanksgiving and Christmas. But accompanying these advantages are difficulties other than those of distance. It has been found, for example, in citrus fruits, that it is the long market, not the high-priced, short market that pays the best. A single small shipper or even a number of isolated shippers not working in harmony obviously cannot build up and hold a long market. It pays better, in the long run, to supply a dozen small towns regularly and as directly as possible than to trust to the dealers in large centers to distribute the fruit.

In passing it is important to note that much of the deciduous fruit is sold at auction in large lots, carload lots, in the eastern centers. That being the case the proper timing of shipments is vital. The possibility of transferring the auction sales points to California is one of the problems.

The foregoing is perhaps sufficient to show the bulwarks behind which the middlemen are entrenched. Rightly or wrongly the grower generally feels that he is quite at the mercy of the packers.

"The packer charges extortionate prices for packing, sells the fruit and sends back to the grower whatever he pleases," is a common statement.

Remedies for High Cost of Marketing

What remedies are possible? First, one naturally considers competition. Competition between the packers is, however, obviously no remedy; for, as has been seen, a large part of the trouble is uncoördinated shipping. The middlemen tend to act in concert, to combine, to grow larger, to form great corporations; for, as has been shown, it is cheaper to do these things on a large than on a small scale. An example of concerted action is found in the California Fruit Distributors of Sacramento, which ships about two thirds of the deciduous fruits (fresh). This is an association of commercial packers, some fifteen in number, with one man in charge of the routing, timing, and destination of shipments.

Second, there are the exchanges, or organizations through which the growers, while retaining very nearly full independence, collect and disseminate information. These have been, in some instances, successful. In the case of raisins, which, of course, are not so very perishable, there was a strong exchange formed after many efforts at more closely bound coöperative associations had failed.

Third, the only durable and far-reaching success so far has been attained by coöperative associations. The most successful one may serve as an illustration. It is the one, already mentioned, in the citrus fruits of southern California. This organization is now twenty-two years old and claims to have marketed in 1916-17 69 per cent of the entire crop. The greater part of the remainder comes from the northern districts. The details of its organization are given in the articles to which reference was made above. All we are interested in here is how it does its marketing. It performs for its members the following services: (1) It packs the fruit in boxes, which it has itself provided, and puts it on the cars. It has at times performed this service for as little as 24 cents a box, but 27 to 28 cents is a fair result. Packing by the commercial packers is charged at about 40 cents a box. (2) It attends to freight and icing charges, to routing, claims for losses, etc. By concentrating this work it makes many savings. (3) It directs sales through salaried representatives in the eastern markets, some 77 in number. It has cut the cost of marketing from 10 per cent, the traditional commission, to about 4 per cent. (4) It has saved loss and dam-

ages by preventing gluts. (5) It has lengthened the marketing period, and has spread the sales out from the large centers to many small towns and even villages. (6) It has increased the demand. For example, between 1900 and 1910, the population of the United States increased 21 per cent, but 292 per cent more oranges were eaten. (7) It inspects and grades the fruit and endeavors to maintain a high reputation. (8) By pooling it spreads the losses, as well as the gains, over all its members.

The organization has been, so runs the general opinion, well administered. But on examination it appears that in so far as it has any advantage over an equally large and equally well administered, equally honest, "private profit," purely mercantile concern, it gets that from the only source from which any coöperative association can draw, namely, the unpaid or underpaid services of its own members, services which would otherwise have to be paid for. To this most vital of all points we shall return.

There were, in 1915, four other large coöperative associations of fruit growers in the state. There were also a number of smaller or local associations of a similar character. The following table shows the pertinent facts concerning each of the large ones.

Name	Location	Crop	Age of organization, in years	Per cent of state crop controlled
California Fruit Growers Exchange	Los Angeles	Citrus fruits	22	69
California Fruit Exchange	Sacramento	Deciduous fruits, mainly fresh	16	20[1]
California Associated Raisin Company	Fresno	Raisins	4	over 80[2]
California Walnut Growers' Ass'n	Los Angeles	Walnuts	5	70
California Almond Growers' Exchange	San Francisco	Almonds	7	80

[1] About one third of that from territory in which it operates.

[2] Also has over $1,000,000 paid up in capital stock.

II

We come now to the experiment on which the state government has entered and for an understanding of which the above statement of the difficulties seemed to be necessary.

Legislative Action

The legislature of 1915 passed an act[3] providing for a "State Commission Market." (The reader will please note that the word "commission" is here an adjective.) The intent of the bill was that there should be established in the various cities or other convenient centers, market places, where the director, a state officer, should receive and sell on commission "agricultural, fishery, dairy and farm products of California." These markets were to be self-sustaining from the commissions earned and only a small appropriation was made to cover the initial and administrative expenses. At the time this bill was passed the local commission business in California products was not very large nor in the best of repute. As has been shown, the market foci are in the East.

The author of the bill seems to have had in mind open markets to which all buyers, including those interested in the outside trade, would resort. He seems to have been much impressed by the cheese markets in Holland, at Edam and at Alkmar, which he had visited.[4] He proposed to begin with the "simpler farm products, such as eggs and chickens, butter and garden truck," but he hoped that, "like the seed of the acorn," it would "grow into the oak." He also had an eye on the local fish market, which later became a very interesting feature in the working out of the plan.

The author of the bill stated that he introduced it in response to the insistant demands of the farmers. The governor, who signed the bill against what he felt to be his better judgment, testified to the same pressure from the farmers. It would be interesting to know how the farmers became imbued with this particular idea. Possibly not a little of the agitation might be traced to the wide dissemination of information concerning coöperative and open marketing in Europe that accompanied the movement for rural credits. It is more likely, though, that the demands were in no way so specific, but were only an expression of the long burning desire to "get out of the hands of the packers."

However, this first bill, although it became a law, never went into effect in the way the author intended. Acting under the authority of a clause in the bill that gave the director wide discretionary powers the first director, Mr. Harris Weinstock,[5] with the

3 Statutes of 1915, ch. 713.

4 Address by the Hon. H. E. McPherson (author of the above bill), *Transactions of the Commonwealth Club of California,* vol. X, no. 4.

5 It will easily be apparent that the personality of the director was an

sanction and approval of the governor, established a market commission, instead of any commission markets. It is obvious that a commission market is just as different from a market commission as a chestnut horse is from a horse chestnut. We are not now interested in the very pretty row which was raised in the legislature at its next session over this diversion of the intent of the bill. The only matter of importance is that the legislature sustained the action of the director and the governor and passed a new act, which provided in express terms for all the things which the director had been doing for the greater part of the two preceding years. It was as if the second act (chapter 802, statutes of 1917) had been in force from 1915 on and the first bill, save for the creation of the office and the small appropriation, had never been. The following extracts from the second act state the powers and duties which had been exercised and were to be exercised:

> There is hereby created the "state market commission," a state organization for the following purposes, to wit:
>
> *First*—To act as advisor for producers and distributors when requested, assisting them in economical and efficient distribution of any such products at fair prices.
>
> *Second*—To gather and disseminate impartial information concerning supply and demand, prevailing prices, and commercial movements, including common and cold storage of any such products.
>
> *Third*—To promote assist and encourage the organization and operation of coöperative and other associations and organizations for improving the relations and services among producers, distributors and consumers of any of such products, and to protect and conserve the interests of the producers and consignors of such products.
>
> *Fourth*—To foster and encourage coöperation between producers and distributors of any such products, in the interest of the general public.
>
> *Fifth*—To foster and encourage the standardizing, grading, inspection, labelling, handling, storage and sale of any such products.
>
> *Sixth*—To act as a mediator or arbitrator, when invited by both parties, in any controversy or issue, that may arise between producers and distributors of any such products.

important feature in the establishment of this office. Mr. Weinstock has been a successful merchant. His partner was the David Lubin who is known to all economists as the founder of the International Agricultural Institute. Mr. Weinstock had served in turn in many public offices. In 1913 he served, at once, on the Federal Industrial Relations Commission and on the State Industrial Accident Commission. He was also a member of the American Commission to Investigate European Rural Credits. In 1915 he was serving on a similar commission for the state. It was his wide acquaintance with men and affairs throughout the whole state that lent confidence to his leadership.

Seventh—To certify, for the protection of owners, buyers or creditors, when so requested, warehouse receipts for any such products, verifying quantities and qualities thereof, and to charge for such services fees sufficient to make the service at least self-supporting.

Eighth—To issue labels bearing the seal of the state market commission on request of the producer, packer, canner or distributor, for any such products, for which state labels have not otherwise been authorized by law, under such rules and regulations as the director may deem necessary and to charge for such labels such fees as in the judgment of the state market director may be proper.

Ninth—To act on behalf of the consumers of any such products in conserving and protecting their interests in every practicable way.

Tenth—To improve, broaden and extend in every practical way the distribution and sale of any such California products throughout the markets of the world.

Eleventh—To promote in the interest of the producer, the distributor and consumer, economical and efficient distribution and marketing of all or any agricultural, fishery, dairy and farm products produced, grown, raised, caught, manufactured or processed within the state of California.

Initial Activities of the State Market Director

One of the things which the market director did first was to ascertain the prices of California's products in the eastern retail markets. He found, for example, that California dried peaches, for which the grower had received in 1915 2½ cents a pound, were retailing in New York and Chicago at from 12½ cents a pound in bulk up to 28 cents a pound in small lots, for fancy grades. A rough average seemed to be about 17½ cents. This is the basis of the illustration used at the beginning of this article. Similar data were collected for other products. He also obtained a written opinion from the federal Department of Justice to the effect that coöperative associations among farmers for marketing their products might be formed in such a way as not to violate the anti-trust laws, and a promise that if any formed in accord with the plans of the market commission should be found to violate those laws ample notice would be given to enable them to dissolve before proceedings were begun. Thus armed he returned to organize the growers. We shall not take space to attempt to describe all his efforts, but shall select those which seem best as illustrations of the principles involved.

Formation of Coöperative Associations

It appeared that one of the greatest obstacles to the formation of coöperative associations among the growers was the unwillingness

of the growers to entrust their crops for several years to a group of untried men as directors of their associations. Another difficulty lay in raising capital and other funds to finance the marketing organization.

In the case of the dried peach growers there was a promotion committee already at work. The director joined forces with this committee and the result of the joint efforts was the "California Peach Growers, Inc.," which has under a five-year contract the sale of the crops from 45,750 acres of orchards "of such peaches as are commonly dried." The association estimates the total acreage of such peaches in the state at 50,000. This association has capital stock. The total subscription to its stock is $848,000, of which $340,000 has been paid in, in cash, and the remainder is in the form of notes signed by the member growers. The purpose of the capital stock is to enhance the credit of the growers in marketing their product. In the first year of its operations this association did not acquire its own packing facilities nor build up an independent marketing or sales staff. But it "was able to make satisfactory negotiations for packing houses adequate for handling this year's crop and has been very skillful in its relations with the commercial packers."[6] The price received by the growers for their crop the first year after the association was formed was 6 cents a pound as against 2½ the year before. The New York retail prices to consumers showed no advance, if anything a slight fall. The crop was a little smaller than that of the preceding disastrous year. Whether from this cause, or from the formation of the association, the commercial packers absorbed the extra cost. Since there was but little change in the actual marketing methods, beyond collective bargaining by the growers, it is not yet possible to say whether the new association is finally going to be able to actually cut out some of the lost motion and cost of marketing.

Another industry somewhat similar to that just dealt with is the dried prune and apricot industry. It is one of the largest in the state. The sales run from $7,000,000 to $11,000,000 annually. It is less precarious than are some of the others, as the markets are older and more stable. But war conditions brought the growers very low prices in 1915. The time was, therefore, ripe for organization. It has been pointed out by Dr. Lloyd, in the study above referred to, that it is in times that are hard for the grower that he begins to move for organization. The greatest difficulty in this

[6] *First Annual Report of the State Market Director of California,* p. 14.

case was the lack of capital to stand as security for advances from the banks to carry the crop to a more opportune time for marketing. The sum required was estimated in this case at about $20 per acre of fully bearing trees, about the same basis as that used by the dried peach men. After many vicissitudes an association was formed in the dried prune and apricot industry. Up to the present, however, the association is not willing to give to the public a statement of its affairs. There is a lively war on between the new association and the old commercial packers who are fighting to save their investment and business. Then, too, prices have risen; and, as always, rising prices are a menace to coöperative associations in tempting members to desert.

Several movements are underway for the organization of the olive growers. But here again the recent sharp rise in the prices of olives and of olive oil has weakened the incentive to organization. The strawberry growers have also an incipient organization, as have the pear growers.

The above shows the extent to which new associations have been fostered in the fruit industry.

The director has also invaded the two fields in which organization was most complete, namely, the citrus fruits and the fresh deciduous fruits. As above stated, the Citrus Exchange controls about 69 per cent of the crop. But the other 31 per cent is the cause of some confusion and occasional gluts. In the same way the deciduous fruit is divided between the California Fruit Distributors, an association of commercial packers, and the California Fruit Exchange, a coöperative association, the former controlling about 60 per cent, the latter 20 per cent of the crop, while the rest is not so well organized. But the two groups do not work in harmony and sometimes gluts occur, which, as the auction markets are very sensitive, cause trouble. Of the citrus fruits the director says, "The lack of dependable information as to the routing and directing of the remaining one third of the crop led at times to gluts and famines in Eastern markets, lowering prices over the entire country and causing losses to all producers." The remedy he proposes is a state bureau of distribution, modelled after that successfully operated by the federal government for the marketing of melons from Imperial Valley. Such a bureau, or one for each of the great industries, he deems necessary. This suggestion met with opposition at once from the coöperative associations. The reason is obvious. Not only are the coöperators too recently freed from

the grip of the middlemen to feel free to associate with them, but if there were a state bureau of this sort to which any growers could apply for information as to when and where to ship, one of the strongest holds which the coöperative association has on the loyalty of its members would be lost. It is because the grower cannot help himself that he joins with his fellows. Still, the suggestion points to a great necessity. Either the coöperative associations must become 100 per cent associations or they must form a truce with their enemies in this one matter. Possibly with the threat of a state bureau before them they will form a voluntary distributing agency to which all growers and packers alike will have access.

With this we may conclude the discussion of the efforts of the director in improving the outside markets. There are some others which might be mentioned. Efforts looking to the organization of the rice growers, the potato growers, the hop growers, and a number of local coöperative associations, all follow substantially the lines already described.

It should be added that the director has busily inculcated in all branches the necessity for better grading and inspection with labels endorsed by the state as a guarantee of quality. The growers are alive to this necessity and some laws with which we need not deal at present have been enacted. Notable among these is the law fixing the quality of oranges to be marketed.

Organization of Local Markets

The first bill passed by the legislature contemplated local commission markets and free markets. The director decided, however, that free markets were matters for the cities to provide and not for the state. Municipal markets have been established from time to time in various cities with varying success. But with them we are not concerned.

In the matter of the marketing of cattle and hogs the director is moving along the lines set forth in the first bill. Nothing has yet been completed, but the plans are well matured and are of interest. In the marketing of cattle and hogs the big Chicago packers and one large local producer, Miller and Lux, have practical control of the whole situation. The small farmer sells to the itinerant buyers who visit him at irregular intervals, or he ships to the larger center on consignment. In the first case he is handicapped by his own ignorance of the market conditions and by having to deal with a

shrewd bargainer. In the second case he has to ship in less than carload lots, which means that he has to pay high freight rates. The small farmer is also irritated by learning, for example, that this year beef cattle for which he gets 9¾ cents a pound are selling in Chicago at 17 cents; that hogs for which he gets 15 or 16 cents a pound in San Francisco command 18½ cents in Portland, a smaller market, but one not dissimilar so far as being get-at-able by the local farmer. He feels, rightly or wrongly, that there is no competition among the buyers, and assumes that if there were he would get better prices. The plan which the director is considering is: To utilize the "farm advisors" (of whom there is now under the direction of the Department of Agriculture of the University of California, one in every important agricultural district), for supervising the assembling of the livestock in carload lots; these to be shipped to centrally located stockyards, which are to be established under the supervision of the market director but supported by local capital; there to be graded by inspectors, in the selection of whom the farmer will have a voice; and to be sold either at auction or by open competitive bidding. The plan may require coöperative marketing associations and even locally supported packing houses.

In the poultry industry two associations have sprung into existence since the establishment of the market commission. One of these is in the northern part of the state, the other in the southern. It appears that in 1916, hens like human beings suffered from the high cost of living, feed being very high. One of the poultrymen declared that 80 per cent of the poultry men were nearly bankrupt. The manager of the northern association estimates: "We had signed up about 1,250,000 hens last November." The association began business January 27, 1917, and to August 30, 1917, had marketed 150,991 cases of 30 dozen eggs, or 4,529,730 dozen eggs.[7] The southern association estimates the total number of hens in the district at 1,300,000, and they "have signed up" 428,000 hens. From January 1 to August 1, 1917, they marketed 2,226,950 dozen eggs. These associations supply cases and fillers and attend to all the work of marketing. They work on the basis of a charge of 2 cents a dozen for these services and supplies. They hope to be able to return some of this working margin. Here, too, the rapid rise of prices has a tendency to undermine the loyalty of the members.

[7] Possibly about one fourth of the district total .

The director also entered the field of the milk supply of San Francisco. To understand this situation we must go back a few years. After the great fire in San Francisco it was decided to remove all the dairies from the city limits. Hence all milk is now shipped into the city from the surrounding territory within a radius of about 100 miles. About the same time, and with increasing strictness ever since, the state descended upon the dairymen and required them to test their cows for tuberculosis and other diseases and to eliminate all that were found to be unhealthy, to keep their milking sheds, animals, and milkers clean and sanitary, and to pasteurize their milk. All of this involved expense and required capital. The dairy business has become a complex one. It cannot be so easily entered and left as once was the case. Combination once quite impossible and in no way to advantage has become quite possible. The dairy industry, too, is quite sensitive to changes in the purchasing power of money. On the one hand there are traditional or customary prices to the consumers which are not easily changed. But the price of feed has advanced. The advance this last year has been about 40 per cent, and there was a heavy advance before that. The labor employed in dairies is very mobile and hence wages have gone up faster than in some other lines.

Between the dairymen and the consumers are the distributors. In San Francisco they are in a strong position. They own the "routes" and, with the housewife's stubborn prejudice for the same milkman, a "route" is a fixed asset. Then, too, the drivers have one of the strongest trade unions. The distributors have not a close organization, but they have a bottle exchange or clearing house and a credit bureau, and they seem to work in harmony, at least to the extent of presenting a practically solid front to the dairymen.

The dairymen who ship to San Francisco number some 200. There had been several efforts at coöperative organization for selling purposes. These had practically all failed when the director came to the rescue. The last one had embraced some 95 dairymen. But it could not raise quite all the capital it needed for central office and plant. With the approval of the director, an organization was finally perfected which now controls approximately four fifths of the supply. The association works on a margin of about 5 per cent, out of which, after paying expenses, it returns any surplus that may result in the form of a bonus in proportion to milk delivered. Each member must deliver an agreed

minimum and may deliver 10 per cent more. When the season's conditions result in surplus production by the members, that surplus is manufactured into butter or cheese at the association's plant.

The result has been three successive increases in prices to the dairymen. First it was 16½ cents a gallon f. o. b. San Francisco, then 19 cents, and just lately 22½ cents. These increases are passed on to the consumer, who paid at first 5 cents a pint and 9 cents a quart, then 6 cents a pint and 10 cents a quart, and now 7 cents a pint and 12 cents a quart. This much must be set over against the high prices—that the supply is fairly assured. However, the public is naturally very much dissatisfied. It is pointed out that there is apparently much waste in the delivery system which involves several milkmen traversing each block, owing to duplication of routes. The whole situation is in agitation and the outcome cannot be foreseen.

In all of the foregoing we have found that the director makes no effort to fix prices. By persuasion, by pointing out the importance of the "long run," he has influenced the growers associations to keep to reasonable prices and not to take advantage of the temporary stringency in the supply or intensity of demand. In the next case he fixes the only "legal" prices.

The Fish Exchange Act

The director's exceptional powers over the prices to be charged for fish are conferred by an act separate from the act establishing the general Market Commission. This act is called "The State Fish Exchange Act."[8] The second section of this act states the purposes as follows:

> It is hereby declared that it is the purpose of this act to bring about an increased consumption of fresh fish by the people of California, to enable them to obtain the same at reasonable prices, and to empower the state market director to regulate and control the business of buying and selling fresh fish, to regulate the destruction of food fish, to create a state fish exchange fund, to provide penalties for violations of this act, to investigate and report on the fish industry, and to promote the sale of fish.

The far-reaching power thus asserted to absolutely fix the price of fish by decree rests on a novel legal theory stated in the act as follows:

[8] Statutes of 1917, ch. 803.

It is hereby declared that the ownership and title to all fish found in the waters under the jurisdiction of the state are in the State of California; no such fish shall be caught, taken or killed in any manner or at any time except that the person so catching, taking or killing or having the same in his possession, irrespective of the manner in which they were obtained, shall by such act or possession thereby consent that the title to such fish shall be and remain in the State of California for the purpose of regulating and controlling the use and disposition of same after such catching, taking or killing, except that the title to such fish legally taken shall vest in the person so taking or possessing them, subject to the restrictions and provisions of law. All fish found in the possession of a person within the State of California shall be presumed to have been taken under the jurisdiction of the state.

It remains to be seen what the courts will say to so novel and startling a theory of possession without property. But it may be pointed out in passing that all that is really done may rest almost as well on the general police powers of the state as upon this new theory of property.

Under the theory of this law every dealer in fish, other than the fisherman, must procure a special license, and dealing in fish without a license is a misdemeanor punishable by fine or imprisonment or both. Nothing is left unsaid or unthought of as to the fullness of the director's powers. Thus, if all else fails, he can open a commission market and compete with the older dealers. Again, no one may destroy "food fish" or divert it to any other use than human consumption without the written consent of the director, with certain routine exceptions, such as the use of fish for bait in the customary manner, and the like.

All this, be it noted, was conceived and enacted before the United States entered the war. It is not a reflex of the ideas of food control originating in the war. It preceded them all.

The act does not apply in any way to "canners, curers or packers," nor to sportsmen, who are regulated by the fish and game commission, nor to the direct sale of fish to consumers by the fisherman, nor to "crustaceans or molusks," except that the prohibition as to destruction, or diversion from human consumption as food, is general and applies to all.

Sea fishing, from San Francisco Bay and from the other bays and harbors along the coast, is done mainly by Italians, with a fringe of Danes and Norwegians. There are also in some branches of the trade, notably shrimp fishing, some Chinese, now mostly old men, for the exclusion act keeps out the younger ones. There are

in the main two classes of these fishermen supplying the store trade. One class is the independent fisherman with a one man boat, who generally goes out alone. Occasionally two boats will work together with nets. There are a few slightly larger boats worked by two or more men. The picturesque lateen sail boats of this fleet which once dotted the bay and the ocean for miles outside have been almost entirely displaced by motor boats. The second class are the "steamer" fishermen. These work in large trawlers, owned by companies or by "padrones." They bring in the so-called steamer fish: sole, sand-dabs, flounders, hake, and skate, as well as other varieties. In this case the company or padrone is also the wholesaler, while the small boat fishermen generally sell their fish on the wharf to the middlemen. The sea fishermen in San Francisco congregate for the most part at Fishermen's Wharf, built especially for their accommodation by the state which owns the whole water front of San Francisco. This concentration is essential to the administration as conducted by the director. It also gave rise to conscious or unconscious concerted action by the fishermen before control, and possibly added to the popular belief that there was a "fish trust."

The San Francisco fish consumer has long enjoyed the theory that he was virtually in the hands of a malicious "fish trust" which deliberately overcharged him and to do that deliberately dumped into the bay, or sold to the glue and fertilizer works, hundreds of tons of good fish daily. Many of the independent fishermen were also galling under belief in such a "trust" which they felt sure was keeping down the price they received. Whether or not their conviction was founded on fact is not so important for our present purpose as is the atmosphere which it created. The belief was a great aid to the director. It was assiduously fostered by the newspapers, a topic to fill space when exciting news was lacking.

The dealers admitted that there was waste of food fish. But they claimed, and with truth, that the public would buy only certain varieties that are relatively scarce and hence dear, such as halibut, salmon, smelt, striped bass, and especially tenderloin of sole, and would not buy the equally good varieties that could be had for less money. Then, too, the habit of eating fish only on Friday obviously hampered the trade.

Under the old law, that of 1915, before he had the express power to fix prices, the director had entered this field. He brought about an organization of all the factors, the large and small fishermen, the wholesalers and the retailers. This organization known as

the "Fish Exchange" set out to educate the public to eat more fish, and thus to prevent dumping and to lower the cost of fish by cutting down the overhead per pound. The association was voluntary and subscriptions toward an advertising fund were called for in proportion to the interest of each member. Advertisements such as the following were spread broadcast:

For the first time in the history of business, so far as we know, a commodity is to be marketed by a method in which the consumer, the retailer, the wholesaler, and the producer all have a say. The interests of each are protected through control by the State Commission Market, acting under the law of the state. The consumer will be protected in the price of fish by the daily publication of the maximum retail prices. By this plan it is hoped to so increase the use of fish that the cost of living will be less, while the greater amount of business thus given the fishermen and dealers will pay them for the lower prices. . . . The first lowering of prices saves the consumers 10 per cent on the price of the fish and this saving will amount to $300,000 a year. . . . If every family realized that it could get fresh fish every day in the week, and that it could get fresh fish at very low prices, the eating of fish would double and the benefits would be greater, because fish is good to eat, it is easily digested, it is healthful and saves money.

ALL ARE INTERESTED

Representatives of the interests mentioned above will meet every business day. They will have the fullest information as to the available supply and will decide what shall be the maximum retail price which the consumer should pay. Note that there are two representatives of the state on this Committee whose duty it is to look after the interest of the public and see that fish is sold as cheaply as fair returns to the fishermen and the dealers will warrant. . . . The fishermen—those who go out in boats on the ocean, bay and rivers to catch the fish and bring them in to Fisherman's Wharf, the wholesalers—those who bring the fish to the city and prepare it for market, and the retailers, who buy the fish from the wholesaler and sell it to you and the state of California—through its Market Director and the State Fish and Game Commission, have formed an organization representing the producer, the dealers, and the people for mutual benefit. . . . Fish should retail today at not to exceed these prices:

Sole	$.08	Smelt	$.16½
Tenderloin of sole	.17½	Tomcod	.12½
Sandabs	.11	White bait	.12½
Rock cod	.14	Kingfish	.09
Black cod	.08	Carp	.06
Large cod	.11	Salmon	.16½
Tuna	.11	Sea bass	.18
Squid	.10	Shad	.08
Boccaccio	.06	Baracuda	.17½
Codfish	.14	Sturgeon	.16
Striped bass	.20	Halibut	.20
Mackerel	.12½		

We have 52 kinds of fish they are all good—some of the best you never heard of. We are going to tell you about them from time to time. . . . ORDER FISH TO-DAY.

The above extracts show very clearly the economic lines upon which the director began. They have all been carried over into the renewed efforts under the new law, with the added force of the director's power to fix the legal prices. But the first effort ran upon a snag. It depended upon the payment of the subscriptions by the dealers. To use the language of the director: "But Mr. A. Paladini, one of the larger wholesale dealers, who had signed the agreement, . . . threw a monkey wrench into the machinery of proposed fish distribution." That is, he refused to pay his quota of the expenses. This nullified the first effort and gave occasion for the more drastic law.

The new plan does not involve an "exchange" nor, in fact, any special organization of the fishermen or dealers. The expense is to be met by the license fees. These unfortunately were set too low, but that can be remedied. The procedure is as follows. Each evening after the fishermen have come home, a representative of the director goes around the "bulkhead" and ascertains how much the catch of each variety has been. The "holdover" of each variety in the hands of the dealers is also reported on. On the basis of this information such a price is fixed for each variety as experience has shown will probably carry off the existing stock. These prices are then published in the morning papers as the only legal prices at retail for that day. Dealers may charge less but not more than these prices, which are the prices to the consumers.

This is the beginning only, for the next step is to fix the prices that will be paid by the retailers to the wholesalers and by the wholesalers to the fishermen. For this purpose schedules have been worked out by negotiations. The schedule for each variety of fish is different. These schedules are the subject of constant discussion and revision and will be so for some time to come, for one of the factors is necessarily the increase in the demand, which is growing daily. A few samples will show the method.

It was first ascertained that in cod the loss by evaporation of water content, "shrinkage," was about 3 per cent; the loss by removing the entrails, etc., 24 per cent; the loss by removing the unmarketable heads, tails, and bones, 22 per cent; total losses 49 per cent. That is to say that for every 100 pounds of fish caught there are only 51 pounds saleable to the consumer. If the whole-

saler does the first cleaning and bears the shrinkage, while the retailer cuts off the heads, tails, fins, and removes bones, the wholesaler buys 100 pounds and sells 73 pounds, the retailer buys 73 pounds and sells 51 pounds. Let us then start with the assumption that the fisherman gets 3 cents a pound, that the wholesaler should have 25 per cent of *his receipts* to cover his expenses and to allow him a profit, and that the retailer, whose expenses may be heavier and who carries the final risk, should be allowed 33 1/3 per cent of *his receipts* for his expenses and a profit. Then the computation runs somewhat as follows:

The fisherman sells 100 pounds at 3 cents and gets	$3.00
The wholesaler loses 27 pounds which cost him at 3 cents	.81
Cost to the wholesaler per 100 pounds *bought*	3.81
Wholesaler's allowance for expenses and profit, 1/3	1.27
Cost to this point per 100 pounds *sold*	5.08
Retailer loses 22 pounds which cost him at $.0508	1.12
Cost to retailer per 100 pounds *bought*	6.20
Retailer's allowance, 1/2 of $6.20	3.10
Total cost per 100 pounds *sold* by retailer............................	9.30

Theoretically the prices should then run: to the consumer $.0930 per pound, to the wholesaler $.0508 per pound, and to the fisherman $.03 per pound. Reversing the process and showing the division of the consumer's dollar we have:

For waste	$.207
" retailer	.333
" wholesaler	.137
" fisherman	.323
	$1.00

Practically, then, if the price that will carry off the supply is 9 cents, the wholesaler should get say 5 cents a pound and the fisherman 3 cents, for it is not necessary to carry out the fractions to the finest point.

As an example of the revision of such schedules we may cite the case of rock cod. These are now first graded into two classes, those under 5 pounds and those over. When they are under 5 pounds the retailer does all the cleaning and gets 45 per cent of the price for that day; the wholesaler gets 15 per cent, and the fisherman gets 40 per cent. But for those over 5 pounds the wholesaler does part of the cleaning; the retailer gets 50 per cent, the wholesaler 20 per cent, and the fisherman 30 per cent. In the latter case the retailer is favored because of the greater risk of spoilage.

There are many schedules more complicated. Thus filet of sole, which is a great favorite because all solid meat, has to be prepared by boning and removing two skins. It takes 10 pounds of fish caught to make 3¾ pounds of filet. But the fishermen brings in the sole in 80 pound boxes containing all sizes of fish and sells them as they run; not all are equally suitable for filet.

These examples must suffice to show the methods of what is coming in the parlance of the times to be called "scientific" price making by government.

It remains to explain how it is that the three parties came to agree to this drastic regulation. The fact is, so far as can be learned, they are all fairly happy about it. Obviously it is useless even for the law to fix a price for fish unless the fisherman fishes, the middleman middles, and the retailer retails. Perhaps of the three the fisherman is the least independent, for his boat with tackle represents an investment of some $1,500 to $2,000 which often is his "all." Still, there are other uses for boats; and he can fish for the canners. A few marginal fishermen, working or loafing or turning to some other job, make quite a difference in the marginal supply. Then, too, fisherman's luck comes in. Generally speaking a big catch even at lower prices gives him more earnings than a small catch. The basic unit is not the pound of fish caught but the result of the day's work. Obviously the "big catch" comes round more often when fishing every day than once a week. The long market gives steadier earnings. Obviously too the retailer, who has to have proper facilities for keeping the fish fresh, cuts his overhead per pound very rapidly if the turnover increases. To a less degree the wholesaler profits in like manner by the increase in the bulk handled. Getting the people to eat more fish was the key to success. Fortunately for the movement it struck a time when, owing to the high cost of living and the patriotic impulse to conserve non-perishable foods, the people were very much in a mood to listen to the call "eat more fish." The daily publication of fish prices, hints as to what is most abundant each day, information as to new varieties not well known, have been eagerly accepted. A greater quantity of fish is being eaten and, what is more, its use is not confined to Friday. Even in small places the retailer now often carries some fish every day in the week. It is difficult to strike any average of prices, for the "season," the "run," and so on have a great influence. Yet there is no question but that the prices of fish are below what they were under corresponding conditions be-

fore the fish bill was put into effect, and that in face of the fall in the purchasing power of money. So far the fish market experiment is a success.

III

Summary

Coöperation has been in the main the director's weapon. Coöperation is not a magic wand which creates something out of nothing. No mere change of system, from "commercialism" to coöperation, will *per se* save or make money. The gain, or saving, made by eliminating misdirected shipments, or ill informed and reckless competition, can be made by intelligent middlemen as well as by coöperative associations. The saving made by sheer size of the marketing organization, under the law of "diminishing cost," can be made by a big commercial house at least as well as by a big coöperative association. In fact, there is a lot of waste motion, of slack, in all coöperative associations—too much debating, too many committees. Nor is there any inherent reason why the gains and savings brought about by government action in the cases under review could not have been attained entirely by private initiative, whether through the old type of middlemen or by coöperation. In this case government intervention stimulated private action.

The money which the successful coöperative association of growers pays to its members as a profit over what they would get if the business of packing and marketing were as well done by middlemen is compensation for services, for work done by the members themselves, which under the other system they hired middlemen to do and paid them for doing. The question whether coöperative packing and marketing is fundamentally better than the other method turns entirely upon whether the members of the coöperative growers associations can or cannot use the strength and time which they put into the running of their associations to as good advantage in any other way. In fruit growing the orchards need comparatively little attention during quite a period after the crop is harvested. During this period the grower has some free time which he can devote to other work than the care of the trees, and it appears that the marketing of his crop is a line of other work into which he is most likely to put his heart. If he does this rather than take a vacation or hunt other work in which he has no such

vital interest there is clearly a social profit which he earns. If, as is usually the case, his general intelligence and knowledge, is increased by the education this new work gives him, there is still further gain. Not all members need to participate, but many actually do in varying degree. This seems to be the convincing argument in favor of coöperation.

Does the coöperative movement need government aid or control? Does it need help at the start only, as an infant industry needs a protective tariff, or all the time? Again, does society need to be protected against the selfishness or short-sightedness of monopolistic coöperation?

Coöperative associations spring quite readily and almost spontaneously into existence when conditions are admittedly bad. They die as readily unless the new organization shows immediate, favorable results. Moreover, only those associations have survived which have obtained a substantial monopoly. Large size is essential. Permanency requires continued loyalty of members, for disintegration cannot be prevented by mere written contracts. Loyalty rests on confidence in the management, and that in turn on tried business ability. If some man (or men) does not arise in the association of sufficient personal force to lead and business ability to direct, and usually with a willingness to make considerable personal sacrifices for the general good, confidence soon wanes and loyalty disappears. Then contracts become "scraps of paper." If the outside buyer can offer terms that pay off the mortgage on the land, or the capital stock investment required to bind the members to the association, there are likely to be some who are tempted. It is in inspiring confidence that the first function of the government director is found. His position as a government official inspires respect and lends weight to his advice. If nothing else, he affords a medium through which divergent interests or factions may be brought to meet each other, and often the meeting will result in reconciliation. It appears, then, that the market director may not only aid in the beginning but that he has a permanent function. Obviously he must be one whose personality commands the same sort of confidence which the successful coöperative manager needs.

The coöperative association must have a substantial monopoly in order to live. Herein, of course, lies a menace to the consumer. So far all the evidence relating to the California experiment points to a small reduction in prices to the consumer, and, what is perhaps

more important, a greatly enhanced and improved service to him, as a result of coöperative marketing in general and of that under the guidance of the market director.[9] Several things seem to promise the safe-guarding of these gains. The most important is that the best asset such an association can have is good-will. To sell frosted oranges means loss of trade the next year. The grower's trees are a heavy investment and he naturally takes the long run view. The demand is very elastic, while the supply each year is a fixed fact. The grower has comparatively little to gain in normal years by withholding fruit from sale. In view of this it seems hardly possible that the state-fostered coöperative monopolies will become a Frankenstein. But there is the possibility that some day the market director may have to discipline his progeny as does every other father.

There is one feature of the work of the market director that is very important and that was passed over with slight mention in connection with the different products discussed above, because it would have involved unnecessary repetition. That feature is inspecting and grading, and certifying to grades. In the interest both of the grower and of the consumer this is obviously better done by government authority than by any private packer or dealer. The director is working toward this end, in that he is supplementing a long line of legislation becoming gradually more and more strict as time passes. For example, the state now has a law grading oranges and forbidding the marketing as sound fruit of any oranges that do not come up to a high standard of quality. The principle is so simple that further discussion seems unnecessary.

The experiment with legal price fixing in the case of fish has been lauded as "scientific." It is at bottom the art of guaging, in the light of day to day experience, the prices that will carry off the supply. It is conducted with the great advantage that the success or failure of the price is known within twenty-four hours. This is the case with but few commodities. Another advantage is that the supply is a known fact when the price is fixed. The only estimate

9 This year, 1917, the new prune and apricot growers association is reported to have fixed a price below that of the commercial packers. How much of this is the result of the packers' efforts to break down the association is not clear. More clear-cut is the action of the raisin growers in fixing a "fair" price regardless of the possibility of a decided rise under the market conditions.

is that applying to the demand. Yet government price fixing even under the favorable conditions that prevail here seems to break all the accepted rules as to the proper scope for such interference. Fish is not a necessity; it is only a satisfactory substitute for dear but customary necessities. It is doubtful if it ever was a monopoly, and it certainly is not necesarily so, for the ocean teems with fish and every one has free access to the ocean. There is and always was an almost instantaneous response to price changes. On the other hand, the marketing methods were inefficient and deep ignorance of the market prevailed. The market director has removed that ignorance by becoming a common center for the three parties most concerned, the fisherman, the wholesaler, and the retailer. Yet, after all, the startling success of the experiment rests to some degree on the extraordinary conditions of the time. It may be that it will become permanent—eating fish may become a habit.

Addendum

On October 22, 1917, the day the manuscript of this article was finished, occurred the formation of the California Federation of Farmers' Coöperative Associations, under the guidance of the market director. This was at once joined by eight associations, which are among those mentioned in this article. It is formed to care for the common interests of the various associations. As set forth in the agreement, the common interests include the interchange of ideas and the collection of data relating to coöperative organizations, including legislation and court decisions. It plans, among other things, for the joint employment of brokers and salaried agents in the eastern markets, the maintenance of an all-year-round sales organization, the education of retailers as to the handling of products (this applies mainly to fresh fruits and vegetables), the joint purchase of supplies, the strengthening of the credit of the members, the maintenance of a joint labor bureau, and for a joint advertising campaign. The director has high hopes for the future of this new organization. He says: "The Federation should develop into a giant of giants of coöperative marketing associations, that may become an object lesson to the whole world."

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